CHAPTER 11 - LIABILITIES AND EQUITY OF THE U.S. GOVERNMENT

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11.1 INTRODUCTION

This chapter establishes accounting standards to measure and recognize liabilities in general purpose financial reports, which are issued for users both internal and external to USDA. (Accounting standards for liabilities associated with loans are covered in Chapter 6, "Direct Loan Programs and Loan Guarantees.") Liabilities include both liabilities covered by budgetary resources and liabilities which are not covered by budgetary resources (see Section 11.24, "Availability of Budgetary Resources"). This chapter also establishes accounting standards for measuring and reporting equity of the U.S. government. Equity includes cumulative results, capital stock, invested capital, and related accounts which represent ownership of the government by its own agencies or by third parties.

11.2 OVERVIEW

This chapter defines the points at which liabilities associated with different types of events and transactions would be recognized. Recognition means recording a dollar amount in the general ledger and reporting that amount on the face of the financial statements.

11.21 Transactions and Events

The existence of a past event is a prerequisite for liability recognition. Events can include, but are not limited to, transactions.

11.21.1 Events

An event is a happening of financial consequence to an entity. ("Consequence" is defined as something of importance or significance.) An event may be an internal event that occurs within an entity, such as transforming raw materials into a product. An event may also be an external event that involves interaction between an entity and its environment, such as a transaction with another entity, an act of nature, a theft, vandalism, an injury caused by negligence, or an accident.

11.21.2 Transactions

As the term is used in this chapter, a transaction involves the transfer of something of value. Transactions may be either exchange transactions or nonexchange transactions. The distinction between exchange and nonexchange transactions is important in determining the point of liability recognition in federal accounting.

11.22 Probable and Measurable

For an entity to recognize a liability, including a contingent liability, the future outflow or other sacrifice of resources from the entity must be both probable and measurable.

11.22.1 Probable

"Probable" refers to that which can reasonably be expected or is believed to be more likely than not on the basis of available evidence or logic. The probability of a future outflow or other sacrifice of resources is assessed on the basis of current facts and circumstances. These current facts and circumstances include the law that provides general authority for federal entity operations and specific budget authority to fund programs. If budget authority has not yet been provided, a future outflow or other sacrifice of resources might still meet the probability test if (1) it directly relates to ongoing entity operations and (2) it is the type for which budget authority is routinely provided. Therefore, the definition applies both to liabilities covered by budgetary resources and to liabilities not covered by budgetary resources.

11.22.2 Measurable

"Measurability" means that an item has a relevant attribute that can be quantified in monetary units with sufficient reliability to be reasonably estimable. Liabilities reported in the financial report are measured by different attributes specified by various accounting standards. Several different measurement attributes are used for different items in present practice (e.g., fair market value, current cost, present value, expected value, settlement value, and historical cost).

11.23 Liabilities

A liability for USDA accounting purposes is a probable future outflow or other sacrifice of resources as a result of past transactions or events. The existence of a past event (which includes transactions) is essential for liability recognition. An event is a happening of financial consequence (i.e., something of importance or significance) to an entity (see Section 11.21.1). A transaction involves the transfer of something of value. General purpose financial reports should recognize probable and measurable future outflows or other sacrifices of resources arising from four separate types of transactions or events:

(1) past exchange transactions,
(2) government-related events,
(3) government-acknowledged events, or
(4) nonexchange transactions that, according to current law and applicable policy, are unpaid amounts due as of the reporting date.

11.23.1 Exchange Transactions

A liability arising from reciprocal or "exchange transactions" should be recognized when one party receives goods or services in return for a promise to provide money or other resources in the future (e.g., a federal employee performs services in exchange for compensation). An "exchange transaction" is one in which each party to the transaction sacrifices value and receives value in return.

11.23.2 Nonexchange Transactions

A liability arising from nonreciprocal transfers or "nonexchange" transactions should be recognized for any unpaid amounts due as of the reporting date. A "nonexchange transaction" is one in which one party to the transaction receives value without directly giving or promising value in return.

11.23.3 Estimation of Amounts

The liability includes amounts due from the federal entity to pay for benefits, goods, or services provided under the terms of the program, as of the federal entity's reporting date, whether or not such amounts have been reported to the federal entity. This means that unreported amounts must be estimated, accrued, and reported on the financial statements and other general purpose financial reports. The distinction between exchange and nonexchange transactions is important in determining the point of liability recognition in federal accounting.

11.23.4 Government-related Events

Government-related events are nontransaction-based events that involve interaction between USDA entities and their environment. The event may be beyond the control of the entity. A liability is recognized for a future outflow or other sacrifice of resources when the event occurs if the future outflow or other sacrifice of resources is probable and measurable (see Sections 11.21 and 11.22 for the definitions of probable and measurable) or as soon thereafter as it becomes probable and measurable.

11.23.4.1 Recognition of Liability

Events, such as a federal entity accidentally causing damage to private property, would create a liability when the event occurred, to the extent that existing law and policy made it probable that the federal government would pay for the damage and to the extent that the amount of the payment could be estimated reliably. Government-related events also include hazardous waste clean-ups caused by USDA operations or accidents and catastrophes caused by natural forces that affect USDA-owned property.

11.23.5 Government-Acknowledged Events

Government-acknowledged events are nontransaction-based events that are of financial consequence to the federal government because it chooses to respond to the event, for which it has no prior legal obligation. A liability is recognized for a future outflow of resources that results from a government-acknowledged event when and to the extent that the federal government formally acknowledges financial responsibility for the cost of the event and a nonexchange or exchange transaction has occurred. Examples of government-acknowledged events include toxic waste damage caused by nonfederal entities and damage from natural disasters.

11.23.5.1 Recognition of Liability

Consequently, costs from many events, such as toxic waste damage caused by nonfederal entities and natural disasters, may ultimately become the responsibility of the federal government. But these costs do not meet the definition of a "liability" until, and to the extent that, the government formally acknowledges financial responsibility for the cost from the event and an exchange or nonexchange transaction has occurred. In other words, the federal entity should recognize the liability and expense when both of the following two criteria have been met (1) the Congress has appropriated or authorized (i.e., through authorization legislation) resources and (2) an exchange occurs (e.g., when a contractor performs repairs) or nonexchange amounts are unpaid as of the reporting date (e.g., direct payments to disaster victims), whichever applies.

11.23.6
Contingencies

A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to a Departmental entity that will ultimately be resolved when one or more future events occur or fail to occur. Contingent future outflows or other sacrifices of resources as a result of past transactions or events may be recognized, may be disclosed, or may not be reported at all, depending on the circumstances. ("Disclosure" in this chapter refers to reporting information in footnotes regarded as an integral part of the basic financial statements.)

11.23.6.1
Recognition of Contingent Liability

A contingency should be recognized as a liability when a past transaction or event has occurred, a future outflow or other sacrifice of resources is probable, and the related future outflow or sacrifice of resources is measurable.

11.23.6.2
Disclosure of Contingencies

A contingency should be disclosed if any of the conditions for liability recognition are not met and there is a reasonable possibility that a loss or an additional loss may have been incurred. Disclosure should include the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made.

11.24
Availability of Budgetary Resources

Liabilities covered by budgetary resources are liabilities incurred that will be covered by available budgetary resources encompassing not only new budget authority but also other resources available to cover liabilities for specified purposes in a given year.

Liabilities not covered by budgetary resources include liabilities incurred for which revenues or other sources of funds necessary to pay the liabilities have not been made available through congressional appropriations or current earnings of the reporting entity. Notwithstanding an expectation that the appropriations will be made, whether they in fact will be made is completely at the discretion of the Congress. Liabilities not covered by budgetary resources must be recorded and presented on agency financial statements and other reports as appropriate;

however, budgetary entries for such liabilities may not be made until budgetary resources are available.

11.25
Equity of the U.S. Government

The nature of proprietary accounting for a federal agency closely resembles that of a private sector firm. As with the private sector firm, assets equal liabilities plus capital. However, "capital" in federal accounting is called "Equity of the U.S. Government." Therefore:

ASSETS = LIABILITIES + EQUITY OF THE U.S. GOVERNMENT

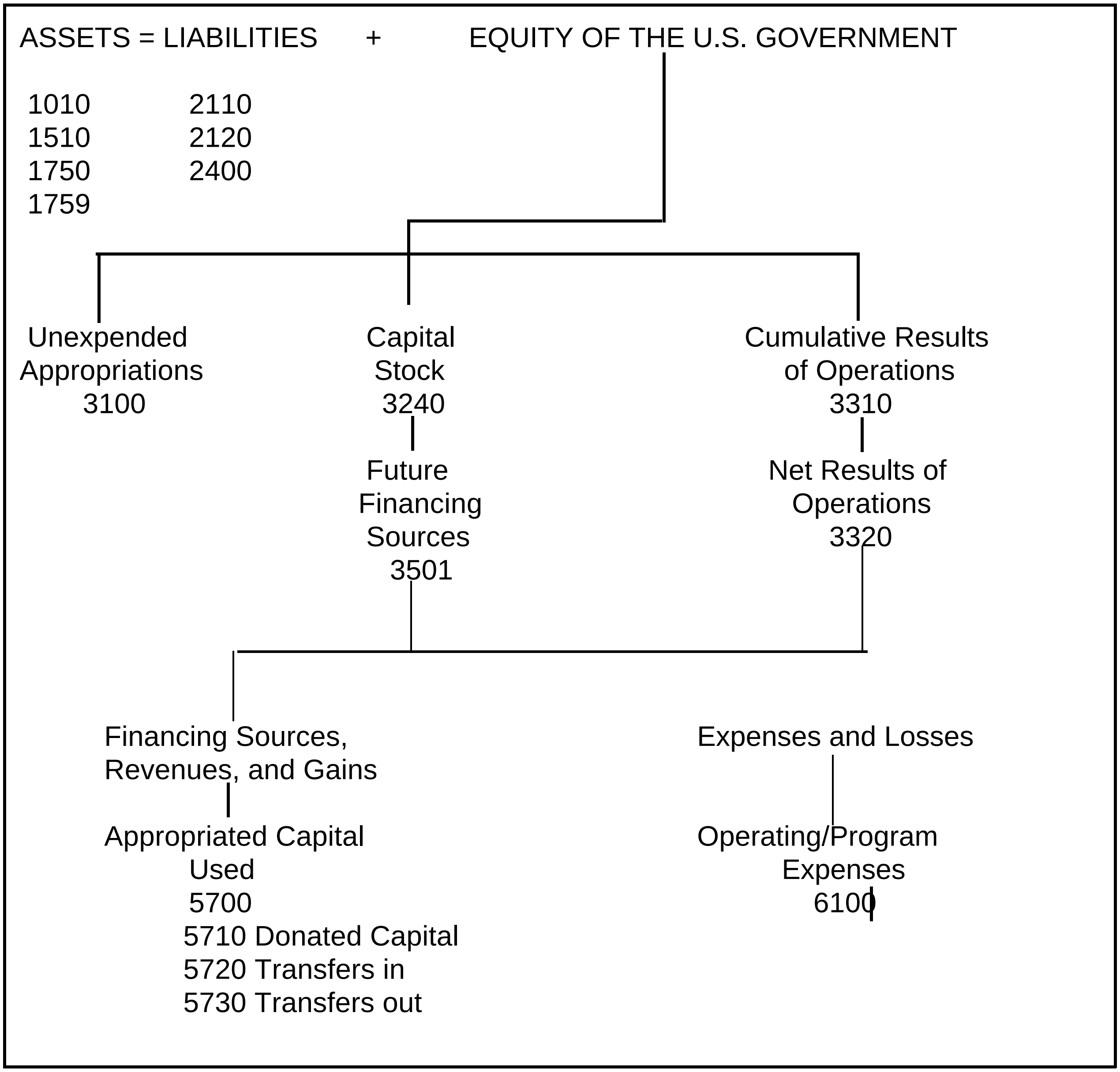
Types of equity accounted for by USDA include unexpended financing sources, investments, and net results of operations.

On the Balance Sheet, all equity accounts which make up the total USDA "Equity of the U.S. Government" which have material balances are presented in the "Net Position" section and have two components:

--Unexpended Appropriations, which includes the portion of the entity's appropriations represented by undelivered orders and unobligated balances. The amounts of unobligated balances available and unavailable shall be disclosed.

--Cumulative Results of Operations, which includes the net results of operations since inception plus the cumulative amount of prior period adjustments. Beginning in FY 1998, this will include the cumulative amount of donations and transfers of assets in and out without reimbursement (i.e., transfers and donations will be recorded as revenue and closed into "Cumulative Results" at year's end). In addition, there will no longer be a segregation of cumulative amounts related to investments in capitalized assets, such as PP&E or capital stock, or pre-credit reform loans, or a separate negative amount shown for future funding requirements. These amounts shall be included in cumulative results of operations.

Figure 1: Basic Accounting Equation Showing Detail of the Capital Structure for a Federal Agency with an Operating Appropriation



11.25.1
Statement of Changes In Net Position

On the "Statement of Changes in Net Position," several equity accounts appear under the heading of "Financing Sources," viz., "Appropriations Used;" "Donations;" "Transfers In" and "Transfers Out" (from the "Additional Paid-in Capital" account); and "Net Change in Cumulative Results of Operations."

See chart on page 11-9 which shows the basic accounting equation showing detail of the capital structure of a federal agency with an operating appropriation.

11.26
General Purpose Financial Reports

General purpose financial reports, for purposes of this chapter, include financial statements and other financial reports prepared in accordance with the accounting standards contained in this and other chapters of the Financial and Accounting Standards Manual. The entity and display concepts presented in this chapter do not preclude a federal entity from preparing ad hoc or temporary reports to meet special reporting needs; or from preparing special purpose financial reports to meet the specific needs of persons in the reporting entity or in response to requests from persons outside the entity for certain financial information; or from preparing a so-called "popular report," which provides a simplified, highly readable, easily understandable description of a reporting entity's finances. These statements would not necessarily purport to be presented in accordance with generally accepted federal accounting standards.

11.27
Financial Statement Presentation

Chapter 13, "Form and Content of Financial Statements," contains detailed information regarding the financial statement treatment of the accounts discussed in the following sections of this chapter. Section 13.43 in particular contains line instructions for the preparation of the various financial statements and discusses the treatment of the categories of liabilities listed below.

11.3
SPECIFIC ACCOUNTING STANDARDS

This section contains specific accounting standards and financial policies which shall apply to all USDA entities. The standards and policies are illustrated to the extent feasible with examples, pro forma accounting entries, and instructions on proper presentation on financial statements. A chart showing a general model for determining exchange v. nonexchange transactions and for determining government-related v. government-acknowledged events may be found on page 11-13.

11.32 Exchange Transactions

An exchange transaction arises when each party to the transaction sacrifices value and receives value in return. There is a two-way flow of resources or of promises to provide resources. In an exchange transaction, a liability is recognized when one party receives goods or services in return for a promise to provide money or other resources in the future. (Executory contracts (see glossary) where goods and services have not been received are not generally recognized as liabilities in financial accounting, although they are generally recognized as obligations in governmental budgetary accounting.)

An example of an exchange transaction occurs when a federal employee performs services in exchange for compensation. The compensation includes current salary and future retirement benefits. An exchange transaction occurs because both parties (the employee and the employer) receive and sacrifice value. The expense is recognized in the period that the exchange occurs. The compensation liability includes unpaid salary amounts earned and the cost of future retirement benefits related to current period services.

11.32.1 Accounts Payable

Accounts payable are amounts owed by a federal entity such as for goods and services received from, rents due to, and progress payments on contract performance provided by other entities. Amounts owed for goods or services received from federal entities represent intragovernmental transactions and should be reported separately from amounts owed to the public.

11.32.1.1 Recognition of Liability

When an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize an exchange liability for the unpaid amount of the goods. If invoices for those goods are not available, the amounts owed should be estimated and reported on all applicable general purpose financial reports.

Figure 2: Determination of Type and Nature of Liabilities

11.32.1.2 Constructive or De Facto Receipt of Goods Manufactured Under Contract

When a contractor provides the government with goods that are also suitable for sale to others, the liability usually arises when the contractor physically delivers the goods and the government receives them and takes formal title. However, when a contractor builds or manufactures facilities or equipment to the government's specifications, formal acceptance of the products by the government is not the determining factor for accounting recognition. Constructive or de facto receipt occurs in each accounting period, in accordance with the following paragraph.

For facilities or equipment constructed or manufactured by contractors or grantees according to agreements or contract specifications, amounts recorded as payable should be based on an estimate of work completed under the contract or the agreement. The estimate of such amounts should be based primarily on the federal entity's engineering and management evaluation of actual performance progress and incurred costs.

11.32.2 Interest Payable

Interest payable should be recorded for the amount of interest expense incurred and unpaid. Interest incurred results from borrowing funds from Treasury, Federal Financing Bank, other federal entities, or the public. Interest also should be recorded on late payments by the federal entity (see Chapter 7, “Disbursements,” Section 77.1, “Prompt Payment Act”) and on refunds. Interest payable of an entity on borrowed funds and unpaid bills should be recognized at the end of each period. Interest payable to federal entities is an intragovernmental liability and should be accounted for separately from interest payable to the public.

11.32.3 Other Current Liabilities

The term “other current liabilities” is used to report current liabilities that are not recognized in specific categories such as accounts payable; interest payable; debt owed to the public, Treasury, or other entities; and liabilities for loan guarantee losses. “Other current liabilities” may include unpaid expenses that are accrued for the fiscal year for which the financial statements are prepared and are expected to be paid within the fiscal year following the reporting date.

11.32.3.1 Examples of Current Liabilities

Typical examples of “other current liabilities” to be recognized are: (a) accrued employees' wages, bonuses, and salaries for services rendered in the current fiscal year for which paychecks will be issued in the following year; (b) accrued entitlement benefits payable, such as Old Age Survivors Insurance and Veterans Compensation and Pension benefits applicable to the current period but not yet paid, and (c) annuities for the current fiscal year administered by trust, pension, or insurance programs for which payment would be made in the following fiscal year. Such liabilities may be presented on the face of the financial reports as Other Current Liabilities or as one or more separate categories depending on the materiality of the amounts.

11.32.3.2 Advances and Prepayments

Federal entities may receive advances and prepayments from other entities for goods to be delivered or services to be performed. Before revenues are earned, the current portion of the advances and prepayments should be recorded as “other current liabilities.” After the revenue is earned (goods or services are delivered, or performance progress is made according to engineering evaluations), the entity should record the appropriate amount as a revenue or financing source and should reduce the liability accordingly. “Other current liabilities” due to federal entities are intragovernmental liabilities which should be reported separately from those due to employees and the public.

11.32.4 Capital Leases

Capital leases are leases that transfer substantially all the benefits and risks of ownership to the lessee. If, at its inception, a lease meets one or more of the following four criteria, the lease should be classified as a capital lease by the lessee:

-- The lease transfers ownership of the property to the lessee by the end of the lease term.

-- The lease contains an option to purchase the leased property at a bargain price.

-- The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property.

-- The present value of rental and other minimum lease payments, excluding that portion of the payments representing executory cost, equals or exceeds 90 percent of the fair value of the leased property.

The last two criteria are not applicable when the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property. If a lease does not meet at least one of the above criteria it should be classified as an operating lease.

11.32.4.1
Recognition of Liability

In a lease transaction, the lessee should report a liability when one or more of four specified capital lease criteria are met. The amount to be recorded by the lessee as a liability under a capital lease is the present value of the rental and other minimum lease payments during the lease term, excluding that portion of the payments representing executory cost to be paid by the lessor. The cost of general property, plant, and equipment acquired under a capital lease shall be equal to the amount recognized as a liability for the capital lease at its inception. (See Chapter 9, “Real and Personal Property.”)

11.32.5
Federal Debt and Related Interest Cost

Federal debt transactions are recognized as a liability when there is an exchange between the involved parties. There are two types of federal debt securities: fixed-value and variable-value. Examples of federal debt transactions include borrowings from the Treasury Department and the issuance of commodity certificates, both under the authority of the Commodity Credit Corporation.

11.32.5.1
Fixed-value Securities

Fixed- value securities are securities that have a known maturity or redemption value at the time of issue. These securities should be valued at their original face (par) values net of any unamortized discount or premium (if applicable).

Amortization of the discount or the premium should normally follow the interest method; in certain cases, the straight line method is permitted.

11.32.5.2
Variable-value Securities

Variable-value securities (i.e., securities that have unknown redemption or maturity values at the time of issue) should be originally valued and periodically revalued at their current value on the basis of the regulations or offering language.

11.32.5.3
Related Interest Cost

The related interest cost of the federal debt includes the accrued (prorated) share of the nominal interest incurred during the accounting period (if any), the amortization amounts of discount or premium for each accounting period (this applies to fixed-value securities only), and the amount of change in the current value for the accounting period for variable-value securities.

11.32.6
Insurance and Guarantee Programs

Insurance and guarantee programs are federal programs that provide protection to individuals or entities against specified risks. The USDA crop insurance programs were established to assume risks that private sector entities are unable or unwilling to assume [at least at prices that beneficiaries of the program can afford (in some cases) or want to pay (in other cases)]. In addition, the crop insurance programs subsidize the provision of insurance to achieve social objectives, such as a stable food supply. Program participants pay fees and/or premiums for specific services. These funds are held in revolving funds; losses sustained by participants are paid from these funds (sometimes supplemented with appropriated or borrowed funds as needed to pay excess claims or defaulted loans. (Accounting standards for loan guarantee programs are contained in Financial and Accounting Standards Manual, Chapter 6, “Direct Loans and Loan Guarantees.”)

11.32.6.1
Coverage

The USDA crop insurance programs represent the type of insurance or guarantee contract in which the insurer (USDA) cannot cancel the insurance, or the insured is guaranteed the ability to renew the insurance. The insurer (USDA) must provide coverage for an extended period until the insured event occurs or can no longer occur, or when the insured party allows the policy to lapse.

11.32.6.2 Recognition of Liability

The crop insurance programs should recognize a liability for unpaid claims incurred resulting from insured events that have already occurred. In addition, the standard requires recognition of the liability that is known with certainty plus an accrual for a contingent liability recognized when an existing condition, situation, or set of circumstances involving uncertainty as to possible loss exists and the uncertainty will ultimately be resolved when one or more probable future events occur or fail to occur and a future outflow or other sacrifice of resources is both probable and measurable.

11.32.6.3 Recognition of Expense

The crop insurance programs should recognize as an expense all claims incurred during the period, including, when appropriate, those not yet reported and contingencies that meet the criteria for recognition. The change in a contingent liability during the reporting period should also be recognized as a component of expense.

11.32.6.4 Expected Losses

All federal insurance and guarantee programs (except loan guarantee programs) should also report as required supplementary stewardship information the expected losses that are based on risk inherent in the insurance and guarantee coverage in force. Risk assumed is generally measured by the present value of unpaid expected losses net of associated premiums, based on the risk inherent in the insurance or guarantee coverage in force.

11.32.7 Pensions, Other Retirement Benefits, And Other Post-Employment Benefits

Federal civilian employee benefits include pensions and post-employment and retirement benefits other than pensions. Pension plans provide benefits upon retirement and may also provide benefits for death, disability, or other termination of employment before retirement. Pension plans may also include benefits to survivors and dependents and may contain early retirement or other special features. The actuarially determined liability and expense of the plan, including all its provisions, is part of the pension plan's liability and expense estimate. This standard addresses "defined benefit plans," which define the future benefits that will be paid in terms of such factors as age, years of service, or compensation. The amount of benefit depends on a number of future events incorporated in the plan's benefit formula.

11.32.7.1

Liabilities Incurred Outside the Pension Plan

In addition to or in lieu of pension benefits, a liability for post-employment and other retirement benefits may be incurred outside the pension plan. Post-employment benefits other than pensions (OPEB) include all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. Special termination benefits (such as specially authorized separation incentive programs) are considered other post-employment benefits and should be recognized as such. Inactive employees are those who are not currently rendering services to their employers and who have not been terminated, but who are not eligible for an immediate annuity, including those temporarily laid off or disabled. OPEB include salary continuation, severance benefits, counseling and training, continuation of health care or other benefits, and unemployment and workers' compensation benefits paid by the employer entity.

11.32.7.2
Employer Entity

The terms "employer entity" and "administrative entity" are used in this chapter to distinguish between entities that employ federal workers and thereby generate the employee costs, including pension cost, and those that are responsible for managing and/or accounting for the pension or the other employee plan. For example, entities that receive "salaries and expense" appropriations are employer entities, while the Office of Personnel Management is an administrative entity because it administers the civilian retirement benefit plans. This chapter contains standards only for the USDA employer entity.

11.32.7.3
Retirement Benefits Other Than Pensions

Retirement benefits other than pensions (ORB) are all forms of benefits to retirees or their beneficiaries provided outside the pension plan. Examples include health and life insurance. Retirement health care benefits are the primary ORB expense. They present unique measurement problems. Pension benefits, OPEB, and ORB are exchange transactions because the employee performs service in part to receive the deferred compensation provided by the plans (such as future pension and medical care benefits). For pension and other retirement benefits, the expense is recognized at the time the employees' services are rendered. For OPEB, the expense is recognized at the time the accountable event occurs. Any part of that cost unpaid at the end of the period is a liability. With regard to pensions and ORB, if estimates, averages, or such devices can reduce the cost of applying this Statement, their use is appropriate provided the results do not materially differ from a detailed application of the standard.

11.32.7.4
Pensions

Pension benefits include all retirement, disability, and survivor benefits financed through a pension plan, including unfunded pension plans. USDA employees are covered primarily under two defined benefit retirement plans: the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS). The payments to social insurance plans (such as Social Security) that agencies must make are operating costs. Similarly, to the extent that federal employees are covered by defined contribution plans (i.e., the Thrift Savings Plan, which is like a 401(k) plan), federal payments to the plan are expenses, but the plan itself is not covered under this standard. This chapter establishes standards of accounting for pension expense and related pension liability for USDA employer entities.

11.32.7.5
Service Cost

The employer entity should recognize an expense for pensions, ORB, and OPEB in its financial report that equals the service cost for its employees for the accounting period, less the amount contributed by the employees, if any. "Service cost" is defined as the actuarial present value of benefits attributed by the pension plan's benefit formula to services rendered by employees during an accounting period. The term is synonymous with "normal cost." The measurement of the service cost should require the use of the plan's actuarial cost method and assumptions, and therefore the factor to be applied by the employer entities must be provided by the plan and/or the administrative entity.

11.32.7.6 Imputed Financing Of Pension, ORB, And OPEB Costs

The employer entity's expenses for pensions, ORB, and OPEB should be balanced by: (a) a decrease to its "fund balance with Treasury" for the amount of its contribution to the post-employment benefits, if any; and if this does not equal the full expense, by (b) an increase to an account representing an intragovernmental imputed financing source entitled, for example, "imputed financing - expenses paid by other agencies." The latter represents the amount being financed directly through the pension plan's administrative entity. The employer entity's contribution represents **intra-governmental revenue**, which should be eliminated for government-wide consolidated financial statements.

11.32.7.7 Liability Recognition

To help employer entities compute their pension liability, the Office of Personnel Management will provide relevant cost factors and methodologies to agencies annually. See Appendix B, “Office of Personnel Management, Retirement and Insurance Service, Federal Employee Benefit Programs, Financial Management Letter, Number: F-96-07, Date: October 21, 1996.” The Letter contains information for computing current period pension liability and post-retirement benefits liability for both Civil Service Retirement System and Federal Employees Retirement System employees for use with fiscal year 1997 financial statements.

11.33 Nonexchange Transactions

A nonexchange transaction arises when one party to a transaction receives value without directly giving or promising value in return. There is a one-way flow of resources or promises. For federal nonexchange transactions, a liability should be recognized for any unpaid amounts due as of the reporting date. This includes amounts due from the federal entity to pay for benefits, goods, or services provided under the terms of the program, as of the federal entity's reporting date, whether or not such amounts have been reported to the federal entity. Goods or services may be provided under the terms of the program in the form of, for example, contractors providing a service for the government, or government entities providing the service directly, on the behalf of the disaster relief beneficiaries. Many grant and certain entitlement programs are nonexchange transactions (such as the Food Stamp

Program, which provides food stamps exchangeable for certain food items to eligible recipients). When the federal government creates an entitlement program or gives a grant to state or local governments, the provision of the payments is determined by federal law rather than through an exchange transaction.

11.33.1
Deposit and Trust Fund Liabilities

Some deposit and trust fund liabilities are classified as non-exchange liabilities because the entity does not receive value in exchange for the funds. In these cases, a liability is recognized for any unpaid amounts as of the reporting date. “Unpaid amounts” includes amounts being held in suspense accounts pending identification of the proper account for or owner of the funds.

To record liability for deposit and trust funds:
1010 Fund Balance with Treasury
    2400 Liability for Deposit Funds and Suspense Accounts

To record the disbursement of deposit and trust funds, the above transaction is reversed.

11.34
Government-Related and Government-Acknowledged Events

An event is a happening of financial consequence to an entity. For federal financial reporting, some events may be other than transaction-based and these events may be classified in one of two categories: (1) government-related events or (2) government-acknowledged events.

11.34.1
Government-Related Events

Government-related events are nontransaction-based events that involve interaction between the federal government and its environment. The event may be beyond the control of the federal entity. In general, a liability is recognized in connection with government-related events on the same basis as those that arise in exchange transactions. Events, such as a federal entity accidentally causing damage to private property, would create a liability when the event occurred, to the extent that existing law and policy made it probable that the federal government would pay for the damages and to the extent that the amount of the payment could be estimated reliably.

11.34.1.2
Federal Tort Claims Act

The vast majority of claims against the United States Government stemming from tortious government conduct are adjudicated under the Federal Tort Claims Act (FTCA), which provides for both administrative and judicial resolution. Administrative awards under the established threshold are paid from agency appropriations. Administrative awards in excess of the established threshold are paid from the judgment appropriation. Court judgments and compromise settlements by the Department of Justice are paid from the judgment appropriation regardless of amount. This Act means that, for certain types of events it is not necessary for the government to acknowledge financial responsibility separately for each individual event as is the case for events described in Section 11.44.5.

11.34.1.3
Types of Government-Related Events

Government-related events include:

(1) cleanup from federal operations resulting in hazardous waste that the federal government is required by statutes and/or regulations, that are in effect as of the Balance Sheet date, to clean up (i.e., remove, contain, or dispose of). See Chapter 9, “Real and Personal Property,” for a detailed discussion of cleanup cost.

(2) accidental damage to nonfederal property caused by federal operations; and

(3) other damage to federal property caused by such factors as federal operations or natural forces. (The subjects of valuing assets and of measuring asset impairments--thus measuring the loss to be recognized--are beyond the scope of this chapter. See Chapter 9, “Real and Personal Property,” for a discussion on the impairment or loss of federal property.)

11.34.1.4
Recognition

Government-related events resulting in a liability should be recognized in the period the event occurs if the future outflow or other sacrifice of resources is probable and the liability can be measured, or as soon thereafter as it becomes probable and measurable.

11.34.5 Government-Acknowledged Events

Government-acknowledged events are those nontransaction-based events that are of financial consequence to the federal government because it chooses to respond to the event. The federal government has broad responsibility to provide for the public's general welfare. The federal government has established programs to fulfill many of the general needs of the public and often assumes responsibilities for which it has no prior legal obligation. Consequently, costs from many events, such as toxic waste damage caused by nonfederal entities and natural disasters, may ultimately become the responsibility of the federal government.

11.34.5.1 Recognition of Liability

Costs from Government-acknowledged events do not meet the definition of a "liability" until, and to the extent that, the government formally acknowledges financial responsibility for the cost from the event and an exchange or nonexchange transaction has occurred. In other words, the federal entity should recognize the liability and expense when both of the following two criteria have been met (1) the Congress has appropriated or authorized (i.e., through authorization legislation) resources and (2) an exchange occurs (e.g., when a contractor performs repairs) or nonexchange amounts are unpaid as of the reporting date (e.g., direct payments to disaster victims), whichever applies.

11.34.5.2 Example of Government-Acknowledged Event

The following example illustrates the liability recognition of government-acknowledged events. A tornado damages a U.S. town and the Congress appropriates funds in response to the disaster. This event is of financial consequence to the federal government because the federal government chooses to provide disaster relief to the town. Transactions resulting from this appropriation, including disaster loans, outright grants to individuals, and work performed by contractors paid by the federal entities, are recognized as exchange or nonexchange transactions.

11.34.5.3 Exchange and Nonexchange Liabilities

In the case of exchange transactions, amounts payable for goods and services provided to federal entities are recognized when the goods are delivered or the work is done. In the case of nonexchange transactions, a liability should be recognized for any unpaid amounts due as of the reporting date. The liability includes amounts due from the federal entity to pay for benefits, goods, or services provided under the terms of the program, as of the federal entity's reporting date, whether or not such amounts have been reported to the federal entity.

11.35 Contingencies

A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity. This chapter does not deal with gain contingencies or measurement of contingencies that involve impairment of nonfinancial assets. Note that an entity is proscribed from recognizing revenue prior to its realization. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm a gain (i.e., acquisition of an asset or reduction of a liability) or a loss (i.e., loss or impairment of an asset or the incurrence of a liability). Note that contingencies are different from "subsequent events." Subsequent events are events or transactions that occur subsequent to the Balance Sheet date, but prior to the issuance of the financial statements and auditor's report, that have a material effect on the financial statements and therefore require adjustment or disclosure in the statements. A chart showing a general model for determining when a contingent liability must be recorded or a contingency disclosed may be found on page 11-26.

When a loss contingency (i.e., contingent liability) exists, the likelihood that the future event or events will confirm the loss or the incurrence of a liability can range from probable to remote. Examples of loss contingencies include collectibility of receivables, pending or threatened litigation, and possible claims and assessments. The probability classifications are as follows:

--Probable: The future confirming event or events are more likely than not to occur.

Figure 3: Determination of General Rules for Identifying and Disclosing Contingencies

-- Reasonably possible: The chance of the future confirming event or events occurring is more than remote but less than probable.

-- Remote: The chance of the future event or events occurring is slight.

11.35.1 Recognition of Contingent Liabilities

A contingent liability should be recognized when all of these three conditions are met:

-- A past event or exchange transaction has occurred (e.g., a federal entity has breached a contract with a nonfederal entity).

-- A future outflow or other sacrifice of resources is probable (e.g., the nonfederal entity has filed a legal claim against a federal entity for breach of contract and the federal entity's management believes the claim is more likely than not to be settled in favor of the claimant).

-- The future outflow or sacrifice of resources is measurable (e.g., the federal entity's management determines an estimated settlement amount).

Government-acknowledged events do not meet the criteria necessary to be recognized as a contingent liability. Note therefore that in the case of government-acknowledged events giving rise to nonexchange or exchange transactions, there must be a formal acceptance of financial responsibility by the federal government, as when the Congress has appropriated or authorized (i.e., through authorization legislation) resources. Furthermore, exchange transactions that arise from government-acknowledged events would be recognized as a liability when goods or services are provided. For nonexchange transactions, a liability would then be recognized at the point the unpaid amount is due.

The estimated liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, that amount is recognized. If no amount within the range is a better estimate than any other amount, the minimum amount in the range is recognized and the range and a description of the nature of the contingency should be disclosed.

The unit of analysis for estimating liabilities can vary according to the reporting entity and the nature of the transaction or event. The liability recognized may be the estimation of an individual transaction or event; or a group of transactions and events.

11.35.2 Disclosure of Contingencies

A contingency should be disclosed if any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have incurred. "Disclosure" in this context refers to reporting information in the footnotes regarded as an integral part of the basic financial statements. Disclosure should include the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made.

11.35.2.1 When Recognition or Disclosure Is Not Necessary

In some cases, contingencies may be identified but the degree of uncertainty is so great that no reporting (i.e., recognition or disclosure) is necessary in the general purpose federal financial reports. Specifically, contingencies classified as remote need not be reported in general purpose federal financial reports, though law may require such disclosures in special purpose reports. If information about remote contingencies or related to remote contingencies is included in general purpose federal financial reports (e.g., the total face amount of insurance and guarantees in force), it should be labeled in such a way to avoid the misleading inference that there is more than a remote chance of a loss of that amount.

11.36 Equity of the U.S. Government

The following equity accounts are used by USDA. These accounts are presented as subcomponents of “Net Position” on the Balance Sheet. Individual USDA entities will report material amounts of the following equity accounts as separate line items on their individual entity balance sheets, and USDA will report material amounts of capital account balances on the USDA consolidated Balance Sheet. See Chapter 13, "Form and Content of Financial Statements," Section 13.42, for a further description of the financial statement treatment of these accounts.

SGL accounts exist only for two of the following equity accounts, "Unexpended Appropriations" (SGL Account 3100) and "Cumulative Results of Operations" (SGL account 3310). For the other equity accounts, some of which may be unique to USDA, internal-use-only accounts have been created. While these internal accounts would be presented on both individual entity and departmental consolidated financial statements, the internal accounts would roll up to SGL account 3310, "Cumulative Results of Operations," for purposes of reporting to Treasury for the Government-wide consolidated financial statements through the annual Federal Agencies Centralized Trial-balance System (FACTS) submissions.

11.36.1 Unexpended Appropriations

"Unexpended Appropriations" (SGL Account 3100) (formerly called "Appropriated Capital") represents equity from an appropriation authorized but for which goods and services to be funded by the appropriation have not been ordered or received. This account is presented on the Balance Sheet in the "Net Position" section.

11.36.2 Capital Stock

"Capital Stock" represents investments by other government agencies or private sector entities in USDA entities. Capital stock differs from federal debt securities in that the stock certificates issued have a fixed par or stated value but do not have a fixed redemption time or period. Capital stock therefore remains outstanding until the issuing entity chooses to redeem it (if it has authority to do so) or ceases to be a going concern. Because there is no official SGL account at present for capital stock, USDA entities will record capital stock issued in account 3240, "Capital Stock."

The 3240 account, which is a USDA subaccount for internal use only, would roll up to SGL account 3310, "Cumulative Results of Operations," on the USDA annual Federal

Agencies Centralized Trial-balance System (FACTS) submissions to Treasury for the Government-wide consolidated financial statements.

11.36.3 Cumulative Results of Operations

"Cumulative Results of Operations" (SGL account 3310) is roughly equivalent to the "Retained Earnings" account for a commercial corporation. This account summarizes:

--Financing sources, revenues, and gains, including appropriations used to fund agency operations for which goods and services have been received; earnings from provisions of goods and services to other agencies, on an accrual basis; and gains from the disposal of assets. The SGL provides financing source, revenue, and gains accounts in the 5000 and 7100 series. The financing source account for expenses funded by appropriations is "Appropriated Capital Used," account 5700. Because increases in financing source, revenue, and gain accounts increase Equity of the U.S. Government, the accounts all normally have credit balances.

--Expenses and Losses, which represent consumption of goods and services on an accrual basis, and losses from the disposal of assets. The SGL provides for these accounts in its 6000 and 7000 series. The SGL expense account pertinent to a basic operating appropriation is 6100, "Operating/Program Expense." Because expenses and losses decrease Equity of the U.S. Government, the accounts all normally have debit balances.

--Net Results of Operations (SGL account 3320) is an intermediate account which summarizes the above two categories. This account is equivalent to the "Income and Expense Summary" account in commercial accounting systems in which posting to ledger accounts is performed manually. Just like the commercial account, it would normally have a zero balance during the accounting period. During the closing process, it would have a changing debit or credit balance depending on the order in which closing entries were posted.

11.36.4
Future Financing Sources

"Future Financing Sources" represents liabilities not covered by available budgetary resources. (See Chapter 13, Section 13.43.1.) Because there is no official SGL account at present for future financing sources, USDA entities will record future financing sources in account 3501, "Future Financing Sources."

The 3501 account, which is a USDA subaccount for internal use only, would roll up to SGL account 3310, "Cumulative Results of Operations," on the USDA annual Federal Agencies Centralized Trial-balance System (FACTS) submissions to Treasury for the Government-wide consolidated financial statements.

11.36.5
Net Position

"Net Position" as presented on the Balance Sheet comprises all of the accounts listed in Sections 11.46.1-6. "Total Net Position" is the sum of "Net Position" and "Future Financing Sources." The sum of "Total Net Position" and "Total Liabilities" on the Balance Sheet must equal "Total Assets." (See Chapter 13, Section 13.43.1.)

11.4
EFFECTIVE DATE

The accounting standards presented in this chapter were effective October 1, 1996.

11.5
WHERE TO DIRECT QUESTIONS AND COMMENTS

Please direct questions or comments about this chapter to the Financial Information Systems VIsion and Strategy (FISVIS) Standards Team at 703-305-1548.

APPENDIX A: GLOSSARY

Definitions of the terms used in this chapter may be found in following glossary:

Actuarial liability - A liability based on statistical calculations and actuarial assumptions (actuarial assumptions are conditions used to resolve uncertainties in the absence of information concerning future events affecting insurance, pension expenses, etc.).

Actuarial present value - The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions.

Budget Authority - The authority provided by federal law to incur financial obligations, as follows:

-- Provisions of law that make funds available for obligation and expenditure (other than borrowing authority), including the authority to obligate and expend the proceeds of offsetting receipts and collections.

-- Borrowing authority or authority to borrow and obligate and expend the borrowed funds, including issuance of promissory notes or other monetary credits.

-- Contract authority, or the making of funds available for obligation but not for expenditure. (Statutory authority under which contracts or other obligations may be entered into before an appropriation for the payment of such obligations. The later appropriation provides cash to liquidate such obligations. See OMB Circular A-34.)

-- Offsetting receipts and collections as negative budget authority and the reduction thereof as positive budget authority.

Budget authority may be classified by period of availability (1-year, multiple-year, and no-year), by nature of authority (current or permanent), by the manner of determining the amount available (definite or indefinite), or as gross (without reduction of offsetting collections) and net (with reductions of offsetting collections).

Capital leases - Leases that transfer substantially all the benefits and risks of ownership to the lessee.

APPENDIX A: GLOSSARY

Contingency - An existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to an entity that will ultimately be resolved when one or more future events occur or fail to occur.

Current liabilities - Amounts owed by a federal entity for which the financial statements are prepared, and which need to be paid within the fiscal year following the reporting date.

Discount rate - The interest rate used to adjust for the time value of money.

Dividend fund interest rate - The interest rate determined at policy issuance used to determine the amount of the dividend fund. It is the rate used to credit interest to the dividend fund, and against which experience is measured to determine the amount of the interest portion of dividends paid to individual policyholders.

Entitlement program - A program in which the federal government becomes automatically obligated to provide benefits to members of a specific group who meet the requirements established by law.

Entitlement period - The period (such as, monthly) for which benefits become due.

Event - A happening of consequence to an entity. It may be an internal event that occurs within an entity, such as the transforming of raw materials into a product. Or it may be an external event that involves interaction between an entity and its environment, such as a transaction with another entity, an act of nature, theft, vandalism, a tort caused by negligence, or an accident.

Exchange transaction - A transaction that arises when each party to the transaction sacrifices value and receives value in return.

Executory contract - A contract which has not been performed by all parties to it.

Executory costs - Those costs such as insurance, maintenance, and taxes incurred for leased property, whether paid by the lessor or lessee.

Expected value - A statistical measurement attribute that is the sum of the products of each potential outcome multiplied by the probability of that potential outcome.

APPENDIX A: GLOSSARY

Expense - Outflows or other using up of assets or incurrence of liabilities (or a combination of both) during a period of providing goods, rendering services, or carrying out other activities related to an entity's programs and missions, the benefits from which do not extend beyond the present operating period.

Fixed value securities - Securities that have a known maturity or redemption value at the time of issue.

General purpose financial reports - Financial reports prepared in accordance with generally-accepted accounting standards and USDA financial policies. Accounting data on these reports comes from agency general ledgers and include appropriate estimates, such as accrued liabilities. Typical examples are annual audited financial statements or SF-133, "Report on Budget Execution." In all cases either the instructions for the reports or the reports themselves inform users that the reports were prepared in accordance with applicable accounting standards and financial policies.

Government-acknowledged events - Events that are not a liability in themselves, but are those events that are "of financial consequence" to the federal government because it chooses to respond to the event.

Government-related events - Nontransaction-based events that involve interaction between federal entities and their environment.

Insurance and guarantee programs - Federal government programs that provide protection to individuals or entities against specified risks. Because the federal government frequently commingles aspects of insurance and guarantees within the same program, this chapter treats the terms as a single type of activity.

Interest method - Under the interest method of amortization, an amount of interest equal to the carrying amount of the investment times the effective interest rate is calculated for each accounting period. This calculated interest is the effective interest of the investment (sometimes referred to as "effective yield"). The effective interest is compared with the stated interest of the investment. (The stated interest is the interest that is payable to the investor according to the stated interest rate.) The difference between the effective interest and the stated interest is the amount by which the discount or the premium should be amortized (i.e., reduced) for the accounting period.

APPENDIX A: GLOSSARY

Liability - For federal accounting purposes, a probable future outflow or other sacrifice of resources as a result of past transactions or events.

Measurable - Reasonably estimable.

Nonexchange transaction - A transaction that arises when one party to a transaction receives value without giving or promising value in return or one party to a transaction gives or promises value without receiving value in return.

Operating lease - An agreement conveying the right to use property for a limited time in exchange for periodic rental payments.

Premium deficiency - A condition under which a liability for future policy benefits using current conditions exceeds the liability for future policy benefits using contract conditions. In such cases, the difference should be recognized as a charge to operations in the current period.

Probable - That which can reasonably be expected or believed to be more likely than not on the basis of available evidence or logic but which is neither certain nor proven.

Recognition (**or recognize**): Recognition is the process of formally recording or incorporating an item into the financial statements of an entity, such as an asset, liability, revenue, expense, or the like. A recognized item is depicted in both words and numbers, with the amount included in the statement totals. Recognition comprehends both initial recognition of an item and recognition of subsequent changes in or removal of a previously recognized item.

Reimbursements - Sums received as payment or advance payment for goods or services furnished either to the public or to another federal government account. If authorized by law, these sums are credited directly to specific appropriation and fund accounts. These amounts are deducted from the total obligations incurred (and outlays) in determining net obligations (and outlays) for such accounts.

Transaction - A particular kind of external event involving the transfer of something of value concerning two or more entities. The transfer may be a two way or one way flow of resources or of promises to provide resources.

APPENDIX A: GLOSSARY

Variable value securities - Securities that have unknown redemption or maturity values at the time of issue. Values of these securities can vary on the basis of regulation or specific language in the offering.

APPENDIX B

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